

GAO

United States General Accounting Office

134200

Report to the Congress

September 1987

# FINANCIAL AUDIT

## Panama Canal Commission's Financial Statements for 1986 and 1985



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Comptroller General  
of the United States

B-114839

September 30, 1987

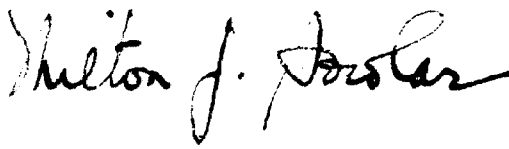
To the President of the Senate and the  
Speaker of the House of Representatives

This report transmits our qualified opinion on the Panama Canal Commission's financial statements for the years ended September 30, 1986 and 1985. The report is qualified because the commission improperly used a reserve for floating equipment repairs. Our separate reports on the commission's internal accounting controls and on its compliance with laws and regulations follow our opinion.

In commenting on a draft of our report, the commission disagreed with our opinion but agreed to include the floating equipment repair reserve in its next proposal for a toll-rate adjustment. We considered the commission's comments in preparing our final report and included them where appropriate. We made our examination pursuant to the provisions of the Panama Canal Act of 1979 (22 U.S.C. 3601-3871 (1982)) and in accordance with generally accepted government auditing standards.

The commission is a federal agency which was established on October 1, 1979, to carry out the responsibilities of the United States with respect to the Panama Canal under the Panama Canal Treaty of 1977. In fulfilling these obligations, the commission manages, operates, and maintains the canal and its complementary works, installations, and equipment and provides for the orderly transit of vessels through the canal. The commission will perform these functions until the treaty terminates on December 31, 1999, when the Republic of Panama will assume full responsibility for the canal.

As required by the act, we are sending copies of this report to the President of the United States and the Secretary of the Treasury. Also, we are sending copies to the Director of the Office of Management and Budget; the Secretaries of State, Defense, and the Army; and the Chairman of the Board of Directors of the Panama Canal Commission.

*for*   
Comptroller General  
of the United States

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Comptroller General  
of the United States

B-114839

To the President of the Senate and the  
Speaker of the House of Representatives

We have examined the statement of financial position of the Panama Canal Commission as of September 30, 1986 and 1985, and the related statements of operations and non-interest-bearing investment, the changes in the investment of the United States government, the changes in financial position, and the status of appropriations for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In July 1984, the commission established a reserve to provide for future repairs of floating equipment. During fiscal years 1986 and 1985, certain expenses of repairing floating equipment were charged to the reserve, and as of September 30, 1986 and 1985, the reserve balance was \$1.6 million and \$2.4 million, respectively. Since the commission is subject to a regulatory process by the Panama Canal Act, the amount of funds to be transferred into this reserve must be approved as part of the regulatory/toll-setting process. The transfer of such funds was not provided for in setting the 1984 to 1986 toll rates, which we believe is necessary before the commission can accumulate reserves for the recovery of future costs. Because the commission did not obtain regulatory approval in advance of establishing the floating equipment reserve, we have qualified our opinions on the commission's financial statements each year since the year ended September 30, 1984.

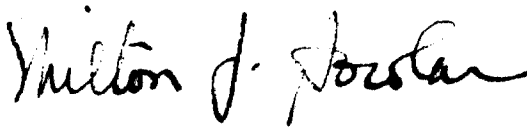
On October 13, 1986, a landslide occurred in the Gaillard Cut, the narrowest part of the Panama Canal, backlogging traffic and limiting vessels to one-way traffic in this area. Dredging and disposal of the slide material was completed by January 31, 1987, at a significant cost of \$7.1 million, which could materially affect the September 30, 1987, financial statements.

In our opinion, except for establishing a reserve for floating equipment without regulatory approval as previously described, the financial statements referred to above present fairly the financial position of the Panama Canal Commission as of September 30, 1986 and 1985, the results of the commission's operations, the changes in the investment of the United States, the changes in financial position, and the status of appropriations for the years then ended, in conformity with generally

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accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The treaty-related cost schedules are presented as required by the Panama Canal Act, and the schedule of property, plant, and equipment is presented for purposes of additional analysis. Neither schedule is a required part of the basic financial statements. The treaty-related cost schedules have not been subjected to the auditing procedures applied in examining the basic financial statements, and, accordingly, we express no opinion on them. While we do not express an opinion on the detailed schedule of property, plant, and equipment, the aggregate amount has been tested within the scope of our examination of the basic financial statements taken as a whole.

for   
Comptroller General  
of the United States

January 29, 1987

# Report on Internal Accounting Controls

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We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1986 and 1985, and have issued our report thereon. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1986. Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1985, is presented in GAO/AFMD-87-4, dated June 16, 1987.

As part of our examination, we made a study and evaluation of the commission's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was limited to determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the commission's financial statements. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- treasury,
- revenue,
- expenditure,
- payroll/personnel,
- inventory management,
- budgetary,
- fixed assets, and
- financial reporting.

Our study and evaluation included all of the control categories listed above. For each category, we obtained a knowledge and understanding of the control procedures, assessed the type and magnitude of errors and irregularities that could occur, and identified and evaluated the adequacy of significant internal accounting controls.

The management of the commission is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable, but not absolute, assurance that

(1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's



authorization and recorded properly to permit the preparation of financial statements in accordance with accounting practices prescribed by the Panama Canal Act of 1979. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The commission evaluated its system of internal accounting and administrative controls in accordance with the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255). The commission reported in December 1986 that its internal control system in effect during fiscal year 1986, taken as a whole, provided reasonable assurance that the commission's objectives were achieved within the limits described above. We reviewed and considered the commission's evaluation in conducting our study and evaluation and in determining the nature, timing, and extent of audit tests.

Our study and evaluation, made for the limited purpose described in the second paragraph of this report, would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the commission taken as a whole or on any of the control categories identified in the second paragraph. However, our study and evaluation and the commission's Financial Integrity Act report disclosed no condition that we believed to be a material weakness.

# Report on Compliance With Laws and Regulations

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We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1986 and 1985, and have issued our report thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1986. Our report on compliance with laws and regulations for the year ended September 30, 1985, is presented in GAO/AFMD-87-4, dated June 16, 1987.

In our opinion, the commission, except for the matter related to the floating equipment reserve as discussed below, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. In connection with our examination, nothing came to our attention except for the matter of the floating equipment reserve that caused us to believe that the commission was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

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## Floating Equipment Reserve

In July 1984, the commission established a reserve for floating equipment repairs to provide for future costs. The commission put \$2.5 million in the reserve during fiscal year 1984 and added \$2.5 million in each of the next two fiscal years. Charges against the reserve for normal repairs and maintenance were \$2.6 million in fiscal year 1985 and \$3.3 million in fiscal year 1986. As of September 30, 1986, the reserve balance was \$1.6 million.

As indicated in our reports on the commission's financial statements for fiscal years 1984 and 1985, this reserve was not approved through the regulatory process as an expense to be recovered through toll rates. The commission is rate-regulated subject to generally accepted accounting principles for regulated operations. The President of the United States is, in effect, the regulator in establishing the canal's toll rates. According to the statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," before a reserve can be established, a regulator must approve rates intended to recover costs that are expected to be incurred in the future. However, in this instance, the floating equipment reserve was not included in any toll-rate proposals submitted for approval. The most recent revision to the toll rates was effective March 12, 1983, and did not consider this reserve as a

component of the rates. If a toll-rate proposal is not immediately forthcoming, an approval letter from the regulator would be sufficient to resolve this issue because, to date, the reserve has not been large enough to affect toll-rates. In our previous reports, we recommended that the commission take such action.

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## **Agency Comments and Our Evaluation**

In its July 22, 1987, letter, the commission commented on a draft of this report. It said it did not believe that immediate approval of the reserve was necessary but that it would request such approval as part of its next toll-rate proposal, currently estimated to be in 1989. We continue to believe that the commission should seek immediate approval for this reserve because the commission has no current plans to submit a modified toll-rate proposal. Regardless of whether its use of the reserve is approved, the commission should include the reserve in its next toll-rate submission.

# Financial Statements

## Statement of Financial Position

September 30, 1986 and 1985

<u>A S S E T S</u>	<u>1986</u>	<u>1985</u>
PROPERTY, PLANT AND EQUIPMENT:		
At cost (Note 1c and 6b).....	\$891,030,194	\$886,120,157
Less accumulated depreciation and valuation allowances (Notes 1e, 2, 3 and 6b).....	<u>427,840,218</u>	<u>416,099,843</u>
	<u>463,189,976</u>	<u>470,020,314</u>
CURRENT ASSETS:		
Cash and Fund balances (Notes 4 and 5):		
Deposit funds and undeposited receipts:		
Postal fund.....	140,954	146,195
Trust fund.....	1,122,442	1,172,298
Cash receipts for deposit into U.S. Treasury.....	<u>579,276</u>	<u>456,513</u>
	<u>1,842,672</u>	<u>1,775,006</u>
Unexpended appropriated funds:		
Operating funds.....	75,776,159	43,357,867
Capital funds.....	30,367,019	24,605,692
Emergency fund.....	<u>10,000,000</u>	<u>10,000,000</u>
	<u>116,143,178</u>	<u>77,963,559</u>
	<u>117,985,850</u>	<u>79,738,565</u>
Accounts receivable:		
Regular.....	9,956,099	11,310,945
Other (Note 7).....	-	826,867
	<u>9,956,099</u>	<u>12,137,812</u>
Inventories, less allowance for obsolete and excess stock of \$401,972 and \$423,954, respectively (Note 1g).....	<u>34,452,692</u>	<u>40,695,032</u>
Other current assets.....	<u>1,868,675</u>	<u>400,566</u>
	<u>164,263,316</u>	<u>132,971,975</u>
OTHER ASSETS:		
Deferred charges:		
Cost of early retirement benefits (Note 1h).....	254,280,000	273,840,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	7,599,000	8,740,000
Other.....	-	204,106
	<u>261,879,000</u>	<u>282,784,106</u>
TOTAL ASSETS.....	<u>\$889,332,292</u>	<u>\$885,776,395</u>

The accompanying notes are an integral part of this statement.

# Financial Statements

September 30, 1986 and 1985

<u>C A P I T A L   A N D   L I A B I L I T I E S</u>	<u>1986</u>	<u>1985</u>
<b>CAPITAL:</b>		
Investment of the United States Government:		
Interest-bearing (11.033% and 10.720%, respectively) (Notes 6c and 8).....	\$ 49,803,121	\$ 76,901,053
Non-interest-bearing.....	287,909,798	286,084,032
	<u>337,712,919</u>	<u>362,985,085</u>
Unexpended appropriations (Note 4):		
Obligated operating funds.....	75,776,159	43,357,867
Obligated capital funds.....	21,196,656	15,232,473
Unobligated capital funds.....	9,170,363	9,373,219
Unobligated emergency fund.....	10,000,000	10,000,000
	<u>116,143,178</u>	<u>77,963,559</u>
	<u>453,856,097</u>	<u>440,948,644</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable:		
U.S. Government agencies.....	5,119,155	4,851,421
Government of Panama.....	6,574,365	6,423,722
Other.....	11,989,470	9,069,465
	<u>23,682,990</u>	<u>20,344,608</u>
Accrued liabilities:		
Employees' leave.....	41,845,798	40,368,754
Salaries and wages.....	5,856,533	5,391,152
Cost of early retirement benefits (Note 1h).....	19,560,000	19,560,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	1,017,000	1,152,000
Employees' repatriation.....	930,000	951,000
Marine accident claims (Notes 6d and 7).....	26,485,284	5,499,542
Net revenue payable to Government of Panama.....	2,012,762	1,118,755
Other.....	2,262,308	2,269,221
	<u>99,969,685</u>	<u>76,310,424</u>
Other current liabilities:		
Unfunded marine accident claims (Notes 6d and 7)...	-	23,052,507
Advances for capital - unexpended (Notes 1d and 9)...	16,435,985	9,614,130
Other.....	1,294,778	1,188,069
	<u>17,730,763</u>	<u>33,854,706</u>
	<u>141,383,438</u>	<u>130,509,738</u>
<b>DEFERRED CREDIT:</b>		
Advances for capital being amortized (Notes 1d and 9).....	28,185,316	26,082,854
	<u>28,185,316</u>	<u>26,082,854</u>
<b>LONG-TERM LIABILITIES AND RESERVES:</b>		
Cost of early retirement benefits (Note 1h).....	234,720,000	254,280,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h).....	6,582,000	7,588,000
Employees' repatriation.....	6,528,000	7,386,000
Lock overhauls (Note 1i).....	3,219,734	2,796,648
Marine accidents (Note 1j).....	12,452,991	13,053,215
Casualty losses (Note 1j).....	841,679	745,693
Floating equipment repair (Note 1k).....	1,563,037	2,385,603
	<u>265,907,441</u>	<u>288,235,159</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>\$889,332,292</u></b>	<b><u>\$885,776,395</u></b>

The accompanying notes are an integral part of this statement.

# Financial Statements

## Statement of Operations and Non-Interest-Bearing Investment

Fiscal Years Ended September 30, 1986 and 1985

	1986	1985
OPERATING REVENUES:		
Tolls (Note 1b).....	\$322,734,202	\$300,807,914
Advances for capital (Note 1d).....	(3,091,000)	-
Net tolls revenue.....	<u>319,643,202</u>	<u>300,807,914</u>
Other.....	112,012,571	111,669,114
Advances for capital (Note 9).....	(7,354,549)	(5,753,649)
Net other revenues.....	<u>104,658,022</u>	<u>105,915,465</u>
Total operating revenues.....	<u>424,301,224</u>	<u>406,723,379</u>
OPERATING EXPENSES (Note 6a):		
Payments to the Government of Panama:		
Public services.....	10,000,000	10,000,000
Fixed annuity.....	10,000,000	10,000,000
Tonnage.....	<u>56,959,549</u>	<u>52,803,013</u>
Maintenance of channels and harbors.....	40,256,410	42,384,789
Navigation service and control.....	70,835,092	66,755,872
Locks operation.....	49,260,120	42,881,108
General repair, engineering and maintenance services.....	21,689,776	19,044,297
Supply and logistics.....	17,909,207	15,517,805
Utilities.....	31,783,509	34,680,996
Housing operations.....	4,940,672	6,893,595
General and administrative.....	66,487,315	65,937,035
Interest on interest-bearing investment (Notes 6c and 8).....	6,786,828	7,713,238
Other.....	<u>35,379,984</u>	<u>30,992,876</u>
Total operating expenses.....	<u>422,288,462</u>	<u>405,604,624</u>
NET OPERATING REVENUE (Note 1b).....	2,012,762	1,118,755
INVESTED CAPITAL - NON-INTEREST-BEARING:		
Net revenue payable to Government of Panama.....	(2,012,762)	(1,118,755)
Investment at beginning of fiscal year.....	286,084,032	277,910,116
Miscellaneous receipts deposited into the U.S.:		
Treasury.....	456,513	917,191
Due U.S. Treasury for undeposited receipts.....	(579,276)	(456,513)
Interest on interest-bearing investment (Notes 6c and 8).....	<u>1,948,529</u>	<u>7,713,238</u>
INVESTED CAPITAL - NON-INTEREST-BEARING AT END OF FISCAL YEAR.....	<u>\$287,909,798</u>	<u>\$286,084,032</u>

The accompanying notes are an integral part of this statement.

# Financial Statements

## Statement of Changes in Financial Position

Fiscal Years Ended September 30, 1986 and 1985

SOURCE OF FUNDS:	1986	1985
From Operations:		
Revenue.....	\$ 424,301,224	\$ 406,723,379
Less operating expenses:		
Interest on interest-bearing investment.....	6,786,828	7,713,238
Payments to the Government of Panama.....	76,959,549	72,803,013
Other expenses.....	338,542,085	325,088,373
Total operating expenses.....	422,288,462	405,604,624
Net operating revenue (Note 1b).....	2,012,762	1,118,755
Net revenue payable to Government of Panama (Note 1b).....	(2,012,762)	(1,118,755)
Add transactions not requiring outlay of funds:		
Depreciation (Notes 1d and 1e).....	22,587,367	18,415,373
Provision for lock overhauls (Note 1i).....	4,141,000	3,741,000
Provision for casualty losses (Note 1j).....	5,200,000	5,200,000
Provision for floating equipment repair (Note 1k).....	2,500,000	2,500,000
Other.....	2,055,856	4,482,630
	36,484,223	34,339,003
Change in investment of the U.S. Government:		
Interest on interest-bearing investment (Notes 6c and 8).....	1,948,529	7,713,238
Receipts deposited into U.S. Treasury.....	(436,961,276)	(416,106,788)
Disbursements from appropriated funds.....	411,819,260	412,614,464
Net property transfers.....	(1,955,916)	(3,621,554)
Other.....	(122,763)	460,677
	(25,272,166)	1,060,037
Advances for capital (including transit booking fees) utilized (Notes 1d and 9).....	3,623,694	10,217,914
Total source of funds.....	14,835,751	45,616,954
APPLICATION OF FUNDS:		
Lock overhauls expenditures.....	3,717,913	6,339,585
Casualty losses expenditures.....	5,704,238	3,784,427
Accrued capital expenditures.....	19,853,012	29,212,127
Floating equipment repair expenditures.....	3,322,565	2,614,397
Total application of funds.....	32,597,728	41,950,536
INCREASE (DECREASE) IN WORKING CAPITAL.....	\$ (17,761,977)	\$ 3,666,418
ANALYSIS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash.....	\$ 67,666	\$ 184,853
Receivables.....	(2,181,713)	(2,533,763)
Inventories.....	(6,242,340)	(23,168)
Other.....	1,468,109	137,938
	(6,888,278)	(2,234,140)
Decrease (increase) in current liabilities:		
Accounts payable.....	(3,338,382)	(785,297)
Accrued liabilities.....	(23,659,260)	6,196,586
Other current liabilities.....	16,123,943	489,269
	(10,873,699)	5,900,558
INCREASE (DECREASE) IN WORKING CAPITAL.....	\$ (17,761,977)	\$ 3,666,418

The accompanying notes are an integral part of this statement.

# Financial Statements

## Statement of Changes in the Investment of the United States Government

Fiscal Year Ended September 30, 1986						
	Invested Capital		Emergency Fund	Operating Funds	Capital Funds	Total
	Interest-Bearing	Non-Interest Bearing				
INVESTMENT AT OCTOBER 1, 1985.....	\$ 76,901,053	\$286,084,032	\$ 10,000,000	\$ 43,357,867	\$ 24,605,692	\$440,948,644
Appropriation by the Congress for FY 1986.	-	-	-	425,034,000	25,500,000	450,534,000
	<u>76,901,053</u>	<u>286,084,032</u>	<u>10,000,000</u>	<u>468,391,867</u>	<u>50,105,692</u>	<u>891,482,644</u>
INCREASES IN INVESTMENT:						
Prior year receipts deposited into the U.S. Treasury.....	-	456,513	-	-	-	456,513
Expenditures from capital appropriations..	19,738,673	-	-	-	(19,738,673)	-
Expenditures from operating appropriations	392,080,587	-	-	(392,080,587)	-	-
Interest on interest-bearing investment...	-	1,948,529	-	-	-	1,948,529
Property transferred from other U.S. Government agencies.....	-	-	-	-	-	-
Net revenue (Note 1b).....	-	2,012,762	-	-	-	2,012,762
	<u>411,819,260</u>	<u>4,417,804</u>	<u>-</u>	<u>(392,080,587)</u>	<u>(19,738,673)</u>	<u>4,417,804</u>
DECREASES IN INVESTMENT:						
Funds to be covered into the U.S. Treasury.	-	-	-	535,121	-	535,121
Receipts deposited into the U.S. Treasury.	436,961,276	-	-	-	-	436,961,276
Due U.S. Treasury for undeposited receipts	-	579,276	-	-	-	579,276
Property transferred to the Government of Panama.....	1,948,292	-	-	-	-	1,948,292
Property transferred to other U.S. Government agencies.....	7,624	-	-	-	-	7,624
Net revenue payable to Government of Panama (Note 1b).....	-	2,012,762	-	-	-	2,012,762
	<u>438,917,192</u>	<u>2,592,038</u>	<u>-</u>	<u>535,121</u>	<u>-</u>	<u>442,044,351</u>
INVESTMENT AT SEPTEMBER 30, 1986.....	\$ 49,803,121	\$287,909,798	\$ 10,000,000	\$ 75,776,159	\$ 30,367,010	\$453,856,097
	(Notes 6c and 8)					

The accompanying notes are an integral part of this statement.



# Financial Statements

Fiscal Year Ended September 30, 1985

	Invested Capital		Emergency Fund	Operating Funds	Capital Funds	Total
	Interest-Bearing	Non-Interest Bearing				
INVESTMENT AT OCTOBER 1, 1984.....	\$ 84,014,932	\$277,910,116	\$ 10,000,000	\$ 46,185,064	\$ 28,986,025	\$447,096,137
Appropriation by the Congress for FY 1986.	-	-	-	404,646,000	25,200,000	429,846,000
	<u>84,014,932</u>	<u>277,910,116</u>	<u>10,000,000</u>	<u>450,831,064</u>	<u>54,186,025</u>	<u>876,942,137</u>
INCREASES IN INVESTMENT:						
Prior year receipts deposited into the U.S. Treasury.....	-	917,191	-	-	-	917,191
Expenditures from capital appropriations..	29,580,333	-	-	-	(29,580,333)	-
Expenditures from operating appropriations	383,034,130	-	-	(383,034,130)	-	-
Interest on interest-bearing investment...	-	7,713,238	-	-	-	7,713,238
Property transferred from other U.S. Government agencies.....	73,414	-	-	-	-	73,414
Net revenue (Note 1b).....	-	1,118,755	-	-	-	1,118,755
	<u>412,687,877</u>	<u>9,749,184</u>	<u>-</u>	<u>(383,034,130)</u>	<u>(29,580,333)</u>	<u>9,822,598</u>
DECREASES IN INVESTMENT:						
Funds to be covered into the U.S. Treasury.	-	-	-	24,439,067	-	24,439,067
Receipts deposited into the U.S. Treasury.	416,106,788	-	-	-	-	416,106,788
Due U.S. Treasury for undeposited receipts	-	456,513	-	-	-	456,513
Property transferred to the Government of Panama.....	3,437,013	-	-	-	-	3,437,013
Property transferred to other U.S. Government agencies.....	257,955	-	-	-	-	257,955
Net revenue payable to Government of Panama (Note 1b).....	-	1,118,755	-	-	-	1,118,755
	<u>419,801,756</u>	<u>1,575,268</u>	<u>-</u>	<u>24,439,067</u>	<u>-</u>	<u>445,816,091</u>
INVESTMENT AT SEPTEMBER 30, 1985.....	<u>\$ 76,901,053</u>	<u>\$286,084,032</u>	<u>\$ 10,000,000</u>	<u>\$ 43,357,867</u>	<u>\$ 24,605,692</u>	<u>\$440,948,644</u>
(Note 8)						

The accompanying notes are an integral part of this statement.

# Financial Statements

## Statement of Status of Appropriations

Fiscal Years Ended September 30, 1986 and 1985

SOURCE OF APPROPRIATIONS:	1986	1985
Operating funds:		
Current year operating appropriation.....	\$418,584,000	\$404,646,000
Appropriation anticipated (indefinite).....	6,450,000	-
	<u>425,034,000</u>	<u>404,646,000</u>
Obligated operating funds brought forward:		
Fiscal year 1980.....	713,275	1,692,534
Fiscal years - Merged.....	3,687,150	6,412,176
Fiscal year 1983.....	-	3,887,554
Fiscal year 1984.....	3,197,827	34,192,800
Fiscal year 1985.....	<u>35,759,615</u>	<u>-</u>
	<u>43,357,867</u>	<u>46,185,064</u>
	<u>468,391,867</u>	<u>450,831,064</u>
Capital funds:		
Current year capital appropriation (no year).....	<u>25,500,000</u>	<u>25,200,000</u>
Obligated capital funds brought forward:		
Fiscal year 1980.....	124,574	159,270
Fiscal years 1981 through 1985.....	<u>15,107,899</u>	<u>19,633,561</u>
	<u>15,232,473</u>	<u>19,792,831</u>
Unobligated capital funds (no year) brought forward:		
Fiscal year 1980.....	53,346	87,103
Fiscal years 1981 through 1985.....	<u>9,319,873</u>	<u>9,106,091</u>
	<u>9,373,219</u>	<u>9,193,194</u>
	<u>50,105,692</u>	<u>54,186,025</u>
Emergency fund (no year).....	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL SOURCE OF APPROPRIATIONS.....	<u>\$528,497,559</u>	<u>\$515,017,089</u>

The accompanying notes are an integral part of this statement.

# Financial Statements

Fiscal Years Ended September 30, 1986 and 1985

APPLICATION OF APPROPRIATIONS:	1986	1985
Operating funds:		
Expenditures from operating appropriations:		
Fiscal year 1980.....	\$ 4,111	\$ 909,463
Fiscal years - Merged.....	507,114	4,054,389
Fiscal year 1983.....	-	1,642,554
Fiscal year 1984.....	1,317,197	29,914,041
Fiscal year 1985.....	31,588,926	346,513,683
Fiscal year 1986.....	358,663,239	-
	<u>392,080,587</u>	<u>383,034,130</u>
Obligated operating funds:		
Fiscal year 1980.....	674,235	713,275
Fiscal years - Merged.....	7,352,546	1,729,337
Fiscal year 1983.....	-	1,957,813
Fiscal year 1984.....	1,862,745	3,197,827
Fiscal year 1985.....	5,525,097	35,759,615
Fiscal year 1986.....	60,361,536	-
	<u>75,776,159</u>	<u>43,357,867</u>
Unobligated operating funds lapsed.....	<u>535,121</u>	<u>24,439,067</u>
	<u>468,391,867</u>	<u>450,831,064</u>
Capital funds:		
Expenditures from capital appropriations:		
Fiscal year 1980.....	126,014	68,453
Fiscal years 1981 through 1985.....	-	29,511,880
Fiscal years 1981 through 1986.....	19,612,659	-
	<u>19,738,673</u>	<u>29,580,333</u>
Obligated capital funds:		
Fiscal year 1980.....	20,908	124,574
Fiscal years 1981 through 1985.....	-	15,107,899
Fiscal years 1981 through 1986.....	21,175,748	-
	<u>21,196,656</u>	<u>15,232,473</u>
Unobligated capital funds (no year):		
Fiscal year 1980.....	30,997	53,346
Fiscal years 1981 through 1985.....	-	9,319,873
Fiscal years 1981 through 1986.....	9,139,366	-
	<u>9,170,363</u>	<u>9,373,219</u>
	<u>50,105,692</u>	<u>54,186,025</u>
Unobligated emergency fund (no year).....	<u>10,000,000</u>	<u>10,000,000</u>
TOTAL APPLICATION OF APPROPRIATIONS.....	<u>\$528,497,559</u>	<u>\$515,017,089</u>

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

The Comptroller General of the United States approved the Accounting Principles and Standards Statement of the Panama Canal Commission in his letter dated September 14, 1982. A summary of significant accounting policies follows:

a. Accounting and reporting. As required by section 1311(a) of the Panama Canal Act of 1979 (Public Law 96-70), hereinafter referred to as the Act, the accounts of the Commission are maintained pursuant to the Accounting and Auditing Act of 1950. This requires that the principles, standards and related requirements be met, as prescribed by the Comptroller General of the United States, after consulting with the Secretary of the Treasury and the Director of the Office of Management and Budget concerning their accounting, financial reporting and budgetary needs. The Accounting and Auditing Act of 1950 also requires that the accounts be maintained on an accrual basis.

b. Cost recovery. As required by section 1341(e)(1) of the Act, the application of generally accepted accounting principles to the Panama Canal Commission, a United States Government agency comparable to a rate-regulated public utility, determines the manner in which costs are recognized. The basis for tolls rates is prescribed in section 1602(b) of the Act. This section of the Act, known as the "statutory tolls formula," provides that:

"Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977."

Under this statutory tolls formula, any unrecovered costs are to be recovered from subsequent revenues. The amount for recovery from subsequent revenues is transferred from Invested Capital to an account within the Other Assets classification. Unrecovered costs are charged back to Invested Capital to the extent subsequent annual revenues exceed annual costs.

c. Property, plant and equipment. Property, plant and equipment are recorded at cost, or if acquired from another United States Government agency, at the value determined by the Director of the Office of Management and Budget. Administrative and other related general expenses are recovered currently and therefore not capitalized. The cost of minor items of property, plant and equipment is charged to expense as incurred.

d. Advances for capital. A portion of tolls in excess of depreciation recoveries may be programmed annually by the Board of Directors for plant replacement, expansion, or improvements. Such funds are considered capital advances from Canal users. Upon utilization, these advances are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such advances.

e. Depreciation. Property, plant and equipment are depreciated over their estimated service lives at rates computed using a straight-line method with additional annual depreciation, identified as composite, to provide for premature plant retirements.

The recurring costs of dredging the waterway are charged to expense. Non-recurring dredging costs for substantial improvements and betterments to the waterway are considered additions to plant and are capitalized and depreciated over their estimated service lives.

f. Accounts receivable. Uncollectible accounts receivable of the Panama Canal Commission are recognized as a reduction in revenue when written off. Any subsequent collections of Commission accounts receivable previously written off are recorded as revenue.

g. Inventories. Operating materials and supplies are stated at average cost, plus cost of transportation to the ultimate destination on the Isthmus of Panama. An allowance has been established to reflect the estimated cost of obsolete and excess stock.

h. Retirement benefits. Employer payments to the contributory United States Civil Service Retirement System and to the Republic of Panama Social Security System are charged to expense. The Commission has no liability for future payments to employees under these systems.

Non-United States citizen employees who retired from predecessor agencies prior to October 5, 1958, are not covered by the United States Civil Service Retirement System but do receive benefits under a separate annuity plan. Payments made under this annuity plan are recorded as a current year expense. Annual amounts expended were \$1.4 million in fiscal year 1986 and \$1.5 million in fiscal year 1985. The liability of the Commission for future annuity payments to these former employees or their eligible widows is reflected in the balance sheet as Retirement benefits to certain former employees of predecessor agencies and an equal amount is recorded as a Deferred charge.

As required by the Act, the Panama Canal Commission is liable for the increase in the unfunded liability of the United States Civil Service Retirement Fund which is attributable to benefits payable from that fund to, or on behalf of, employees and their survivors under the early retirement provisions of the Act. The annual installment to liquidate the increased liability is determined by the Office of Personnel Management.

i. Reserve for lock overhauls. A reserve is provided through an annual charge to expense to cover the estimated cost of periodic lock overhauls.

j. Reserve for casualty losses. A reserve is provided through an annual charge to expense to cover the estimated cost of marine accidents and other casualty losses.

k. Reserve for floating equipment repair. A reserve is provided through an annual charge to expense to cover the estimated cost of repairs to major floating equipment.

l. Housing use rights. No monetary value is assigned to the rights granted to the United States Government by the Republic of Panama to use Canal Area housing transferred to the Government of Panama under the terms of the Panama Canal Treaty of 1977. The cost to manage, maintain and provide livability improvements to these quarters is charged to expense. Rental income is included in other revenues.

## 2. Plant Valuation Allowances.

At July 1, 1951, certain valuation allowances for property, plant and equipment transferred from the Panama Canal (agency) to the Panama Canal Company and the Canal Zone Government were established, to reduce to usable value the costs of the assets transferred. At October 1, 1979, such valuation allowances as were applicable to the assets transferred from the Panama Canal Company and the Canal Zone Government to the Panama Canal Commission were carried forward and are comprised of: (a) \$4.7 million at September 30, 1986, and \$4.8 million at September 30, 1985, to reduce to usable value the cost of property, plant and equipment transferred; (b) \$50.9 million at September 30, 1986, and 1985, to offset interest costs imputed for the original Canal construction period; and (c) \$42.3 million at September 30, 1986, and \$42.5 million at September 30, 1985, to offset the cost of defense facilities and suspended construction projects, the latter being principally the partial construction of a third set of locks abandoned in the early part of World War II.

Property, plant and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance and by an increase to the non-interest-bearing investment of the United States Government in proportion to the value to the Commission of the reactivated asset.

## 3. Depreciation as a Percentage of Average Cost of Plant.

The provision for depreciation, expressed as a percentage of average cost of depreciable plant exclusive of valuation allowances, was 3.03% for fiscal year 1986 and 2.53% for fiscal year 1985.

4. Cash and Fund Balances.

As of September 30, 1986, the cash and fund balances totaled \$117,985,850. Of this total, \$116,143,178 represents current unexpended appropriated funds for operations, capital and the emergency fund, and \$1,842,672 represents postal and trust funds. These funds are deposited: \$111,480,204 in the United States Treasury, \$2,209,950 in commercial banks and \$4,295,696 on hand.

As of September 30, 1985, the cash and fund balances totaled \$79,738,565. Of this total, \$77,963,559 represented unexpended appropriated funds for operations, capital and the emergency fund, and \$1,775,006 represented postal and trust funds. These funds were deposited: \$74,572,119 in the United States Treasury, \$1,509,718 in commercial banks and \$3,656,728 on hand.

The unexpended appropriated funds for operations are limited to paying operating obligations incurred but not yet liquidated. The unexpended appropriated funds for capital are limited to paying for the acquisition or construction of property, plant and equipment.

The emergency fund represents the amount on deposit in the United States Treasury which is to be used "...to defray emergency expenditures and to insure the continuous efficient and safe operation of the Panama Canal when funds appropriated for the operation and maintenance of the Canal prove insufficient for such purposes...."

The postal fund consists of outstanding money orders, postal savings and interest accrued thereon. This fund will remain available until liquidated. The trust fund primarily includes deposits made by customers for future tolls and other service payments.

5. Panama Canal Commission Fund.

The Panama Canal Commission Fund as established by the Panama Canal Act of 1979 (the Act) is made up of receipts deposited in the United States Treasury less appropriation warrants issued during the fiscal year. The balance in this account, \$167.7 million as of September 30, 1986, and \$180.8 million as of September 30, 1985, is available for future appropriations.

Section 1302 of the Act provides that all appropriations necessary to operate the Panama Canal shall be issued from the Panama Canal Commission Fund. The appropriations for fiscal year 1980 were issued to the Commission from the General Fund of the United States Treasury. The status of the amount still owed to the General Fund of the United States Treasury for fiscal year 1980 is as follows:

Millions of Dollars

Operating Appropriation	\$ 427.2	
Capital Appropriation	<u>36.6</u>	\$ 463.8
Repaid to General Fund (07/81)	(350.0)	
Repaid to General Fund (12/82)	<u>(28.2)</u>	<u>(378.2)</u>
Amount owed General Fund of U.S.		
Treasury as of September 30, 1986		<u>\$ 85.6</u>

6. Accounting Changes.

a. During fiscal year 1985, the Commission virtually eliminated transfers of costs from performers of services to requesters of these services to simplify and streamline accounting for costs. Additionally, in fiscal year 1985, the operating expenses for storehouse, transportation, sanitation and grounds management services and the employee fitness program were reclassified in order to reflect more closely the Commission's functional alignment of costs.

b. In fiscal year 1986, the Commission discontinued reporting minor plant items as fully depreciated assets, because all minor items are now and, have been since 1973, charged to expense at the time of purchase. Continued reporting as fully depreciated assets and expensing at time of purchase is an unnecessary double reporting. For comparability, fiscal year 1985 minor plant items were also taken out from the fixed assets.

c. Effective January 1, 1986, the Commission implemented a change in the treatment of interest required by enactment of Public Law 99-195 on December 23, 1985 which amended, prospectively, the interest provision of the Panama Canal Act of 1979. Under the Act as amended, interest on the United States investment in the Panama Canal will be deposited into the General Fund of the United States Treasury as miscellaneous receipts rather than into the Panama Canal Commission Fund. Accordingly, as of January 1, 1986, interest will no longer reduce the investment base. Interest for fiscal year 1986 amounted to \$6,786,828 of which \$4,838,299 was deposited into the General Fund of the United States Treasury in accordance with the Act, as amended.

d. Public Law 99-209, dated December 23, 1985, amended the Act to authorize the Commission to adjust and pay damages from marine accidents which occurred outside the locks where the amount of the claim exceeded \$120,000. The authority under Public Law 99-209 is retroactive to October 1, 1979. Prior to this amendment, the Commission's authority was limited to those claims for accidents which occurred (i) prior to October 1, 1979, (ii) within the locks after September 30, 1979, or (iii) outside the locks where the claim was \$120,000 or less. Claims exceeding \$120,000 for accidents occurring outside the locks were, prior to the amendment, required to be submitted to Congress for approval and were booked as non-fund liabilities. Beginning in fiscal year 1986, the Commission eliminated the non-fund category of marine accident liabilities and recognized all these liabilities as funded.



7. Other Receivables.

Other receivables represent services provided in connection with marine accidents for which the vessel is considered to be responsible awaiting final settlement. This amount is also included in the computation of estimated liabilities established for marine accident claims.

8. Interest-Bearing Investment of the United States Government.

The interest-bearing investment of the United States Government in the Panama Canal is determined based on section 1603(a) of the Act. The interest-bearing investment of the United States Government at September 30, 1986, and September 30, 1985, was determined as follows:

	<u>Millions of Dollars</u>
Investment at September 30, 1984	\$ 84.0
Fiscal year 1985 transactions:	
Disbursements	\$ 412.6
Receipts	(416.1)
Net property transfers	(3.6)
Net change	(7.1)
Investment at September 30, 1985	76.9
Fiscal year 1986 transactions:	
Disbursements	411.9
Receipts	(437.0)
Net property transfers	(2.0)
Net change	(27.1)
Investment at September 30, 1986	<u>\$ 49.8</u>

9. Advances for Capital - Transit Booking System Fees.

With the approval of the Board of Directors, a system was activated in fiscal year 1983 whereby shippers, for a fee, can make an advance reservation for vessel transit. This system generated funds of \$7.4 million in fiscal year 1986 and \$5.8 million in fiscal year 1985. Such funds are considered capital advances from Canal users. By direction of the Board of Directors, these fees are set aside for capital improvements.

10. Contingent Liabilities and Commitments.

In addition to recorded liabilities, the estimated maximum contingent liability which could result from pending claims and lawsuits was \$14.1 million at September 30, 1986, and \$3.4 million at September 30, 1985. In the opinion of management and Commission counsel, these pending claims and lawsuits will be resolved with no material adverse effect on the financial condition of the agency.

## Financial Statements

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to \$39.9 million at September 30, 1986, and \$25.9 million at September 30, 1985. Of these amounts \$0.1 million in unfilled purchase orders were prepaid as of September 30, 1986, and \$0.2 million at September 30, 1985. In addition, the Panama Canal Commission is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act.

Cash and negotiable securities of a kind acceptable by the United States Government in the amount of \$8.9 million were held by United States depositories designated by the Panama Canal Commission at September 30, 1986, and \$7.3 million at September 30, 1985, to guarantee payment by third parties of their obligations.

The Panama Canal Treaty of 1977, Article XIII, paragraph 4(c), provides that an annual amount of up to \$10 million per year be paid to the Government of Panama out of operating revenues to the extent that such revenues exceed expenditures. Payment to the Government of Panama is subject to the limitations set forth in section 1341(e) of the Act. In the event operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years up to the amount available from these surpluses. As of September 30, 1986, the balance contingently payable to the Government of Panama amounts to \$61.1 million. As of September 30, 1985, the balance contingently payable to the Government of Panama amounted to \$53.1 million.

### 11. Treaty Impact.

On September 7, 1977, the United States of America and the Republic of Panama signed the Panama Canal Treaty of 1977. The Treaty provided for the establishment of the Panama Canal Commission on October 1, 1979, to assume certain operational responsibilities for the Canal until December 31, 1999. When the Treaty terminates on December 31, 1999, the Republic of Panama shall assume total responsibility for the management, operation, and maintenance of the Panama Canal, which shall be turned over in operating condition and free of liens and debts, except as the two Parties may otherwise agree. The effects of these long-range requirements are not considered in the financial statements.

# Supplementary Information

## Schedule of Treaty-Related Costs

### Statement Unaudited

#### Department of Defense (DOD) Cost (Savings) Through Fiscal Year 1986

Agency	Prior FY cost <sup>a</sup>	FY 1985 costs	FY 1986 costs	Total costs
U.S. Army				
Base operations	\$ 70,034,870	\$ 19,093,540	\$ 16,463,850	\$ 105,592,260
Communications	11,777,815	3,214,988	3,201,377	18,194,180
Commissary	6,186,056	353,332	539,190	7,078,578
Transportation	2,887,815	4,958	3,481	2,896,254
Technical assistance	284,398	51,825	24,017	360,240
Health services	49,197,756	14,241,931	14,020,894	77,460,581
Disposition of remains	1,058,203	394,117	380,672	1,832,992
Criminal investigations	241,891	66,766	67,836	376,493
Tropic test center	35,408	0	0	35,408
Procurement of equipment	3,046,789	0	0	3,046,789
Military construction	36,385,833	11,958	0	36,397,791
Military pay	41,018,213	13,120,157	9,910,258	64,048,628
Ports	165,868	0	0	165,868
Family housing operations	219,792	4,982,818	1,640,445	6,843,055
Total Army	222,540,707	55,536,390	46,252,020	324,329,117
U.S. Air Force	19,113,304	4,939,594	4,800,322	28,853,220
U.S. Navy	120,707	(87,348)	(91,379)	(58,020)
DOD Dependents' Schools <sup>c</sup>	5,601,000	(818,000)	(2,427,000)	2,356,000
Defense Mapping Agency/IAGS	1,158,764	note <sup>b</sup>	note <sup>b</sup>	1,158,764
Total DOD	\$ 248,534,482	\$ 59,570,636	\$ 48,533,963	\$ 356,639,081

<sup>a</sup>Includes prior-year adjustments.

<sup>b</sup>Note reported.

<sup>c</sup>Obligations incurred rather than actual expenditures.

**Supplementary Information**

Statement Unaudited

Non-DOD Costs (Savings) Through Fiscal Year 1986

<u>Agency</u>	<u>Prior FY costs<sup>a</sup></u>	<u>FY 1985 costs</u>	<u>FY 1986 costs</u>	<u>Total costs</u>
State Department	\$ (6,796,730)	\$ (1,789,265)	\$ (1,790,039)	\$ (10,376,034)
Federal Aviation Administration	(15,208,583)	(4,251,300)	0	(19,459,883)
American Battle Monuments Commission	1,717,153	376,050	393,000	2,486,203
Panama Canal Commission	300,000	0	0	300,000
General Accounting Office	751,390	237,605	197,448	1,186,443
Smithsonian Tropical Research Institute	1,465,761	394,689	408,417	2,268,867
Gorgas Memorial Laboratory	(29,492)	(91,564)	(136,295)	(257,351)
Canal Area Court System				
U.S. attorney	(308,047)	(115,700)	(118,014)	(541,761)
U.S. marshall	(218,311)	(47,310)	(51,585)	(317,206)
Clerk of court	(1,321,030)	(535,685)	(544,727)	(2,401,442)
Bureau of Prisons	493,314	197,542	302,775	993,631
Foreign Broadcast Information Service	44,747	41,671	56,703	143,121
National Oceanic and Atmospheric Administration	<u>2,703</u>	<u>9,261</u>	<u>note<sup>b</sup></u>	<u>11,964</u>
Total non-DOD	\$ <u>(19,107,125)</u>	\$ <u>(5,574,006)</u>	\$ <u>(1,282,317)</u>	\$ <u>(25,963,448)</u>

<sup>a</sup>Includes prior-year adjustments.

<sup>b</sup>Not reported.

**Supplementary Information**

Statement Unaudited

Property Transferred by the Panama Canal  
Commission and Predecessor Organizations  
to the Republic of Panama Since October 1, 1979

<u>Agency</u>	<u>Acquisition Cost</u>			
	<u>Prior transfers</u>	<u>FY 1985 transfers</u>	<u>FY 1986 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$168,317,629	\$ 0	\$ 0	\$168,317,629
Panama Canal Commission	9,859,035	13,658,934	5,144,572	28,662,541
Total	<u>\$178,176,664</u>	<u>\$13,658,934</u>	<u>\$5,144,572</u>	<u>\$196,980,170</u>

<u>Agency</u>	<u>Net Book Value</u>			
	<u>Prior transfers</u>	<u>FY 1985 transfers</u>	<u>FY 1986 transfers</u>	<u>Total transfers</u>
Canal Zone Government and Panama Canal Company	\$84,886,222	\$ 0	\$ 0	\$84,886,222
Panama Canal Commission	4,045,653	3,437,013	1,948,292	9,430,958
Total	<u>\$88,931,875</u>	<u>\$ 3,437,013</u>	<u>\$ 1,948,292</u>	<u>\$94,317,180</u>

Statement Unaudited

Property Transferred by the Department of Defense  
and the Federal Aviation Administration  
to the Republic of Panama Since October 1, 1979

<u>Agency</u>	<u>Acquisition Cost</u>			<u>Total transfers</u>
	<u>Prior transfers</u>	<u>FY 1985 transfers</u>	<u>FY 1986 transfers</u>	
Department of Defense				
U.S. Army	\$32,145,416	\$8,085,689	\$106,941	\$40,338,046
U.S. Navy	4,930,769	0	0	4,930,769
U.S. Air Force	275,874	0	0	275,874
Total DOD	37,352,059	8,085,689	106,941	45,544,689
Federal Aviation Administration	3,015,789	1,622,571	0	4,638,360
Total	<u>\$40,367,848</u>	<u>\$9,708,260</u>	<u>\$106,941</u>	<u>\$50,183,049</u>

Supplementary Information

Schedule of Property, Plant, and Equipment

September 30, 1986 and 1985					
	Estimated Service Life	1 9 8 6		1 9 8 5	
		Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights.....	40 yrs.	\$ 14,728,889	\$ 4,878,945	\$ 14,728,889	\$ 4,510,723
Interest during construction.....	-	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills and embankments....	15-100 yrs.	347,536,452	114,551,412	347,536,452	106,030,626
Canal structures and equipment.....	4-100 yrs.	288,439,752	138,474,168	267,888,940	135,594,921
Supporting and general facilities.....	5-100 yrs.	122,268,880	76,515,928	126,766,933	76,474,686
Facilities held for future use.....	10-100 yrs.	2,827,602	2,381,656	2,858,777	2,450,779
Plant additions in progress.....	-	24,190,510	-	35,302,057	-
Suspended construction projects.....	-	40,145,798	40,145,798	40,145,798	40,145,797
TOTAL.....		<u>\$891,030,194</u>	<u>\$427,840,218</u>	<u>\$886,120,157</u>	<u>\$416,099,843</u>

# Comments From the Panama Canal Commission



BALBOA  
REPUBLIC OF PANAMA

## PANAMA CANAL COMMISSION OFFICE OF THE ADMINISTRATOR

U.S. MAILING ADDRESS  
APO MIAMI 34011

July 22, 1987

Mr. Frederick D. Wolf, Director  
Accounting and Financial Management Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

We have reviewed the GAO draft report entitled "Financial Audit Panama Canal Commission's Financial Statements for 1986 and 1985" (GAO/AFMD-87-45). The following comments address GAO's qualified opinion on the financial statements and other aspects of the draft report.

### Floating Equipment Reserve

The draft report continues GAO's qualified opinion because the Commission did not obtain advance regulatory approval for the floating equipment reserve. The Commission has previously addressed this issue in responding to GAO's prior year qualification of the financial statements.

Briefly, the Commission's position is that:

--Presidential approval of accounting changes is required only in connection with a toll rate change.

--Establishment of the floating equipment reserve has not affected the balance of revenues and costs. As a result, it has not been necessary, under the requirements of the Panama Canal Act, to request a change in toll rates.

--A letter to the President on this matter, as previously recommended by GAO, would be a substantial and inappropriate departure from established rate-making procedures which is not justified by the facts.

--GAO's initial recommendation to include the reserve in the next toll proposal submission to the President will be complied with.

The Commission has already begun studies on the need for a toll rate increase in FY 1989. Inasmuch as the Commission's Board of Directors is an integral part of the rate-making process, the Commission will obtain, as a first step in that process, a formal resolution from the Board approving establishment of the reserve.

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Comments From the Panama  
Canal Commission

Mr. Frederick D. Wolf, July 22, 1987

Other Matters

In the opinion, you state that the accounting principles were "... applied on a basis consistent with that of the preceding year after the change,... in reclassifying certain expenses...." Since that reclassification change was effective in fiscal year 1985, it should have no effect on the consistency between amounts reported for the two years, and you may wish to delete that implication from your report. Also, the correct reference for the change is note 6(a), rather than note 6(d) as indicated in your draft.

In the Schedule of Treaty-Related Costs on page 29, total transfers for U.S. Army should read \$40,338,046 and prior transfers for U.S. Navy should read \$4,930,769.

Thank you for providing us the opportunity to comment on the draft report before its publication. The Commission appreciates your efforts to have the report published at the earliest possible date.

Sincerely,



D.P. McAuliffe  
Administrator



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